VIRTUS FUNDS

Virtus Newfleet Low Duration Core Plus Bond Fund

A: HIMZX (92828W346) | C: PCMZX (92828W338) | I: HIBIX (92828W320) | R6: VLDRX (92828W197)

MARKET OVERVIEW

Fixed income market performance continues to be dominated by a mixture of geopolitical posturing (specifically, the use of tariffs as a policy tool), weaker economic data, and central bank headlines. Broader market fundamentals, technicals, and valuations still matter, but are frequently overshadowed by the aforementioned in the current environment. The theme of the dovish central banks' turn remains in place with growing market confidence that policy easing is forthcoming. This significant development in the markets, when combined with improved valuations, has led to a return to favor of risk assets.

The U.S. Treasury curve continues to twist and shift broadly flatter and lower with some segments of the curve remaining inverted. We believe that this change in the curve is more indicative of technical factors in the market rather than of a looming U.S. recession, and we will continue to monitor the incoming economic data to form our opinion. As expected, the FOMC (Federal Open Market Committee) kept its target rate unchanged in a range of 2.25-2.50%. While keeping rates steady in June, the Chair of the FOMC indicated the decision-making body is monitoring the impact of the tariff issues on the U.S. economic outlook. The market interpreted these comments as a sign that the FOMC has opened the door to the rate cut discussion.

Spread sectors performed well during the quarter led by corporate high quality, emerging markets high yield, and corporate high yield. Given the change in U.S. interest rates, longer duration within most asset classes outperformed on a total return basis. Securitized sectors (asset-backed securities (ABS) and non-agency residential mortgage-backed securities (RMBS)), while still positive, lagged other sectors.

We continue to see value in spread sectors. The dovish turn by central bankers, benign consumer, housing, and corporate fundamentals, as well as the global demand for yield, continue to underpin our strategy.

For a more detailed review of the second quarter and our outlook, please see Newfleet's Newfleet's 2Q19 Market Review & Outlook.

HOW THE FUND PERFORMED

The Fund (Class I) returned 1.77% in the second quarter versus the ICE BofAML 1-5 Year U.S. Corporate & Government Bond Index return of 1.92%.

Positive Contributors

> The overweight to fixed income spread sectors and underweight to U.S. Treasuries.

> Exposure to and issue selection within the corporate high yield (HY) sector. The market continues to perform well post the late-2018 selloff despite periods of softness in the second quarter as trade tensions ratcheted up and U.S. economic data showed some deceleration. Fundamentals have slowed but remain solid. The technical environment remains supportive with a lack of issuance, the large volume of rising stars, and continued inflows leaving the HY market with a massive supply shortfall.

Detractors

> Exposure to high yield bank loans. Loans underperformed on a total return basis relative to other spread sectors due to the shorter duration nature of the asset class and weakened retail demand.

> Exposure to ABS. The sector underperformed on a total return basis due to the shorter duration nature of the asset class. Performance in 2019 has been muted for the sector as it has underperformed other asset classes that had experienced greater losses at the end of 2018.

CURRENT FUND STRATEGY

Sector Changes: We reduced our exposure to U.S. Treasury securities. We deployed the sale proceeds primarily into ABS, RMBS and commercial mortgage-backed securities.

Non-U.S. Exposure: Over the quarter, we reduced the overall non-U.S. and emerging markets debt exposure within the Fund. Total non-U.S. exposure and emerging markets exposure remain below historical averages for the Fund. We continue to have some concerns of macro headwinds for the sector and idiosyncratic risks; however, valuations in specific countries are attractive and the long-term fundamental outlook remains favorable. Fundamentals, however, are balanced near term. In this space, we favor sovereigns in larger capital structures, emphasizing high grade over high yield and hard currency over local market exposure.

Corporate High Quality: There continues to be value in corporate high quality; however, given the recent spread tightening and current valuations, we expect this sector to provide coupon-type returns with modest room for spread tightening. We continue to favor the BBB segment of the sector and, from an industry perspective, favor banks, REITs, and basic materials. We are opportunistically repositioning our portfolios into a strong market, selectively selling some hybrids and high beta outperformers, ensuring our positioning continues to reflect our view on the best relative value within the sector.

Corporate High Yield: The corporate HY market overall screened cheap at the end of 2018 with yields approaching the 8% area and spreads wider than historical averages. After the most recent strength, we have been reducing names where valuations have run ahead of fundamentals and redeploying into names that have either not participated in the rally or have seen an improvement operationally. With idiosyncratic risk so high, correct industry and/or credit calls are imperative to outperforming in the space. Currently, we see select opportunities within the consumer non-cyclical, consumer cyclical, and capital goods industries while being less enamored with energy and basic energy (chemicals and metals & mining).

Securitized Product: Our allocation to the securitized sectors (RMBS and ABS) continues to play an important role. In addition to a diversified collateral base and attractive valuations relative to many other areas of the fixed income markets, they also offer diversification to the corporate credit allocation within the portfolio. Our consumer focus within the ABS sector has been beneficial as the U.S. consumer continues to show the ability to lift the U.S. economy. RMBS benefits from steady income growth, full employment, good underwriting, and investor demand for mortgage credit.

OUTLOOK

We continue to look for opportunities in all sectors of the bond market, striving to uncover any out-of-favor or undervalued sectors and securities. We favor spread sectors based on still-attractive valuations and sound fundamentals, and highlight the importance of credit selection and positioning in the current environment. We believe some of the best total return and yield opportunities in fixed income can be found in spread sectors. Some of the specific sectors where we see best relative value and opportunities are out-of-index/off-the-run ABS, RMBS, credit-specific high yield and high yield bank loans, investment grade corporates, and emerging markets debt.

Effective July 9, 2019, this Fund changed its name from Virtus Newfleet Low Duration Income Fund.

Virtus Newfleet Low Duration Core Plus Bond Fund

INVESTMENT ADVISER

Virtus Investment Advisers, Inc.

INVESTMENT SUBADVISER

Newfleet Asset Management, LLC

PORTFOLIO MANAGERS

David L. Albrycht, CFA
Industry start date: 1985
Start date as Fund Portfolio Manager: 2012

Benjamin Caron, CFA
Industry start date: 1997
Start date as Fund Portfolio Manager: 2012

Lisa M. Baribault
Industry start date: 2003
Start date as Fund Portfolio Manager: 2017

SECTOR ALLOCATIONS

	% Fund
Asset Backed Securities	32.71
Non-Agency Residential MBS	30.78
Corporate - High Quality	20.23
Non-Agency Commercial MBS	6.84
Bank Loans	3.59
Corporate - High Yield	2.60
Mortgage Backed Securities	1.49
Treasury	1.00
Yankee - High Quality	0.57
Emerging Market - High Yield	0.21

Sector weights are subject to change.

AVERAGE ANNUAL TOTAL RETURNS (%) as of 6/30/19

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception 2/23/1996
Fund Class I	1.77	3.88	4.86	2.43	2.15	3.63	4.34
Index	1.92	3.59	5.37	1.44	2.06	3.07	4.56

Performance data quoted represents past results. Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. Investment return and principal value will fluctuate so your shares, when redeemed, may be worth more or less than their original cost. Please visit virtus.com for performance data current to the most recent month-end.

The fund class gross expense ratio is 0.68%. The net expense ratio is 0.50%, which reflects a contractual expense reimbursement in effect through 1/31/2020.

Average annual total return is the annual compound return for the indicated period and reflects the change in share price and the reinvestment of all dividends and capital gains. Returns for periods of one year or less are cumulative returns. Class I shares have no sales charges or distribution or service fees, therefore their returns do not reflect these expenses. Fees and expenses vary, and other share classes are subject to sales charges and fees. Class I shares are offered primarily to eligible institutional investors who purchase the minimum amounts required as described in the prospectus and may not be available to all investors. For fund performance on other share classes, please visit www.virtus.com.

Index: The **Virtus Newfleet Low Duration Core Plus Linked Benchmark** consists of the ICE BofAML 1-5 Year US Corporate & Government Bond Index which tracks the performance of US dollar denominated investment grade debt publicly issued in the U.S. domestic market, including U.S. Treasury, U.S. agency, foreign government, supranational and corporate securities, with a remaining term to final maturity less than 5 years, calculated on a total return basis. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment. Performance of the Virtus Newfleet Low Duration Core Plus Linked Benchmark prior to 2/1/2017 is that of the Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index.

Notes on Risk: Credit & Interest: Debt securities are subject to various risks, the most prominent of which are credit and interest rate risk. The issuer of a debt security may fail to make interest and/or principal payments. Values of debt securities may rise or fall in response to changes in interest rates, and this risk may be enhanced with longer-term maturities. **ABS/MBS:** Changes in interest rates can cause both extension and prepayment risks for asset- and mortgage-backed securities. These securities are also subject to risks associated with the repayment of underlying collateral. **Foreign Investing:** Investing internationally involves additional risks such as currency, political, accounting, economic, and market risk. **High Yield-High Risk Fixed Income Securities:** There is a greater level of credit risk and price volatility involved with high yield securities than investment grade securities. **Prospectus:** For additional information on risks, please see the fund's prospectus.

The commentary is the opinion of the subadviser. This material has been prepared using sources of information generally believed to be reliable; however, its accuracy is not guaranteed. Opinions represented are subject to change and should not be considered investment advice or an offer of securities.

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